

**MINUTES of the
DELAWARE ECONOMIC & FINANCIAL ADVISORY COUNCIL**

WebEx Event – December 20, 2021

Attendance:

Member	Present
N. Batta	Yes
C. Bo	No
C. Bonini	No
J. Bullock	Yes
L. Davis Burnham	Yes
R. Byrd	No
C. Cade	Yes
W. Carson	No
N. Cook	Yes
C. Davis	Yes
K. Dwyer	Yes
B. Fasy	No
R. Geisenberger	Yes
R. Glen	Yes
G. Hinds	Yes

Member	Present
J. Harty	No
M. Houghton	Yes
M. Jackson	Yes
R.A. Jones	Yes
A. Lubin	Yes
M. Magarik	Yes
N. Majeski	Yes
G. Marcozzi	Yes
I. McConnel	Yes
C. Morgan	Yes
E. Ratledge	Yes
T. Shopa	No
D. Short	No
D. Sokola	Yes

Members in Attendance: 21

Members Absent: 8

Others Present: Sen. T. Paradee, A. Aka, R. Armitage, J. Clarke, J. Cole, M.G. Colonna, L. Davis, C. DeMatteis, J. DeChene, C. Engelsiepen, N. Freedman, A. Gallagher, R. Goldsmith, C. Hall, D. Haw-Young, C. Heiks, C. Hudson, A. Jenkins, J. Johnstone, K. Knight, L. Lewis, J. Maddox, D. Madrid, M. Marlin, V. McCartan, S. McNeeley, R. Morris, J. Noel, D. Roose, R. Scoglietti, J. Seemans, S. Snyder, S. Sokolowski, C. Stewart, T. Strayer, L. Thornton and members of the press.

Opening Business: Mr. Houghton called the meeting to order at 1:30 p.m.

Mr. Houghton announced that Robert Byrd, current DEFAC member and former Chair, has lost his wife Mary Christine after a long illness. Mary Christine was a dear friend of Mr. Houghton, having worked with him on many projects over the years. Mr. Houghton asked everyone who knows Mr. Byrd to reach out to him during this extremely difficult period.

Mr. Houghton welcomed Michael Jackson, Vice President of Finance at Delaware

Technical Community College and former Director of the Office of Management and Budget, as a new DEFAC member.

Mr. Houghton also explained why the ongoing meeting is taking place remotely. The minutes from the October meeting were approved as submitted.

Expenditure Forecasts:

Mr. Ratledge and Ms. Engelsiepen presented the General Fund Expenditure forecasts.

General Fund Expenditures - Fiscal Year 2022:

Reviewing the Balance Sheet method, Mr. Ratledge noted an FY 2022 budget act of \$4,771.5 million, Cash to the Bond Bill of \$692.3 million, Grant-in-Aid of \$63.2 million, Continuing and Encumbered of \$495.8 million, and Supplementals of \$221.1 million.

Mr. Ratledge also mentioned a \$10 million increase in the Reversions estimate to \$25 million, and a slight decrease in the Continuing estimate to \$1,086.3 million. Meanwhile, the Encumbered estimate was flat between October and December, at \$40 million.

Reviewing the Functional method, Mr. Ratledge noted a \$69.8 million increase in Salaries from FY 2021, which Ms. Engelsiepen attributed to pay policy (one-time bonus), step increases for public school teachers, collective bargaining agreements, increased salaries for State employees, and unit count growth.

Mr. Ratledge mentioned the higher estimates for Fringe Benefits and Pension between FY 2022 and FY 2021. Ms. Engelsiepen explained that pay policy for retirees (\$500 bonus) is driving the yearly increase.

Mr. Ratledge indicated that the annual increase in Debt Service is higher than usual and noted the large jump in the Grants estimate. Ms. Engelsiepen attributed the increase in Debt Service to bond issuance and refinancing. Meanwhile, the increase in Grants is due to big-ticketed cash projects such as the Community Redevelopment/Reinvestment project, which contributed over \$65 million to the overall increase, and the South Market Street project (\$30 million).

In addition, the Strategic Fund (\$20 million) and the Higher Economic Development Fund (over \$16 million) also contributed to the increase in the Grants estimate. Mr. Ratledge noted that the large amount of continuing monies (i.e., \$1.1 billion) will fund many projects, some of which will last for several years.

Mr. Ratledge mentioned the robust increase in the Medicaid estimate. Ms. Engelsiepen

attributed the increase to the expiration of the enhanced Federal Medical Assistance Percentages (FMAP) at the end of March 2022, the rising number of Medicaid participants, and an outstanding Federal-State reconciliation payment of \$25 million. She also said the number of Medicaid eligibles stood at 283,986 in November 2021, as opposed to 256,847 a year earlier and 235,415 in March 2020. The number of newly eligibles was 14,521 in November 2021, higher than 11,974 twelve months ago and 10,781 in March 2020.

Mr. Ratledge noted that eligibles cannot be removed from Medicaid rolls because of the emergency declaration, which is expected to end in March 2022. Ms. Engelsiepen said that, beginning from July 2022, eligibles will start being removed in a phased approach that could last a year. She mentioned that the State's Department of Health and Social Services is waiting for further guidance from the Federal government.

Mr. Ratledge indicated a \$72.2 million increase in Contractual Services estimate between FY 2021 and FY 2022. Ms. Engelsiepen said a large portion of the increase is attributable to several cash projects from the one-time supplemental appropriation bill. (See Table 1a and Table 1b for complete details).

A motion was made, seconded and approved to accept \$5,092.6 million as the Expenditure estimate for FY 2022. The estimate represents an increase of \$573.5 million from FY 2021 but a decrease of \$6.8 million from the October estimate.

General Fund Expenditures - Fiscal Year 2023:

Mr. Ratledge noted an increase in the FY 2023 estimates for Salaries and Fringe Benefits but a decrease in the Pension estimate. Ms. Engelsiepen said the FY 2023 Pension estimate was based on past trend and noted that the FY 2022 estimate included the impacts of one-time bonuses (i.e., \$500 bonus for retirees and \$1,000 bonus for State employees).

Mr. Ratledge mentioned increases in the estimates for Debt Service, Contractual Services, Supplies and Materials, and Capital Outlay in FY 2023. He said the estimates for Medicaid and Grants are expected to decrease in FY 2023.

Ms. Engelsiepen noted that a bond issuance is planned for the first quarter of 2022, leading to an increase in Debt Service. As for Grants, Ms. Engelsiepen indicated that the FY 2022 estimate includes several cash projects that are expected to be one-time. She added that the FY 2023 estimate will likely change after the publication of the Governor's Recommended Budget.

The decrease in the Medicaid estimate can be attributed to the aforementioned Federal-State reconciliation payment that is expected to occur in FY 2022, according to Ms. Engelsiepen. To explain the large increase in the FY 2023 Contractual Services estimate, she said that large projects such as the Sussex County Family Court building usually

involve design and bids in their first year, leading to the majority of spend taking place during the second and third years. (See Table 1c for complete details).

A motion was made, seconded and approved to accept \$5,322.6 million as the Expenditure estimate for FY 2023. The estimate represents an increase of \$230 million from FY 2022.

Revenue Forecasts:

Ms. Davis Burnham and Mr. Roose presented the General Fund Revenue forecasts.

Economic Outlook

Mr. Aka presented economic forecasts for the U.S. (produced by IHS Markit ("IHS")) and Delaware (developed by the Department of Finance). He reviewed the IHS assumptions and mentioned that the national economic forecasts do not include the Build Back Better (BBB) Act.

Mr. Aka said the U.S. economy performed better in 2021 than expected by IHS in December 2020, thanks to a fiscal stimulus. IHS currently estimates a 7% economic expansion for the fourth quarter, leading to growth of 5.7% for the calendar year. A year earlier, IHS expected real GDP to grow 4.3% in 2021.

Mr. Aka mentioned that IHS has revised its 2021 CPI inflation forecast from 4.5% to 4.6%, and its 2022 forecast from 3.3% to 3.7%. He also indicated that stronger-than-expected growth in U.S. wage and salary in the second quarter has led IHS to hike its calendar year forecast to 10%, which if realized would represent the highest growth since 1984.

Mr. Aka said that Delaware's forecasts took account of second-quarter complete payroll data received from the State's Department of Labor. Making use of the data, the State's employment is estimated to have declined by 1.7% in FY 2021, which is smaller than the 2.1% decline expected in October. Meanwhile, the Delaware personal income series continue to track the nation.

Ms. Davis Burnham asked why the U.S. GDP is strong in FY 2022 while the nation's personal income is not. Mr. Aka replied that personal income has benefitted from a fiscal stimulus in the previous fiscal year.

General Fund Revenues - Fiscal Year 2022:

The Revenue Subcommittee recommended the following updates to October's estimates:

Revenue Category	Oct-21	Dec-21	Change
Corporation Income Tax	278.7	342.6	63.9
Personal Income Tax	2,088.4	2,133.4	45.0
PIT Refunds	(230.5)	(257.5)	(27.0)
Limited Partnerships & LLC's	398.6	416.6	18.0
Gross Receipts Tax	304.8	317.5	12.7
Lottery	225.8	232.5	6.7
Other Revenues	60.8	63.1	2.3
Dividends and Interest	49.3	50.8	1.5
Alcoholic Beverage Tax	30.0	31.5	1.5
Hospital Board and Treatment	22.4	21.3	(1.1)
Insurance Taxes	81.1	80.0	(1.1)
Public Utility Tax	29.7	28.7	(1.0)
Other Refunds	(23.9)	(22.9)	1.0
Bank Franchise Tax	88.8	89.5	0.7

For a complete listing of FY 2022 estimates, see Table 2.

Mr. Roose began his presentation by saying that some provisions of the Build Back Better (BBB) Act could have an impact on Delaware's revenues. He argued that even if BBB does not become law in calendar year 2021, some provisions of the bill might still be revived in another bill or a revised BBB Act.

Mr. Roose said that the increase of state and local taxes (SALT) cap to \$80,000 would have a direct and significant impact on the State's personal income tax revenues. He noted that eliminating the cap entirely could cost \$40 million and that a cap of \$80,000 could cost about the same amount.

Mr. Roose proceeded to talk about inflation. He noted that the consumer price index (CPI), which is revised periodically, measures price changes of a fixed basket of consumer goods. Mr. Roose highlighted the fact that shelter represents about one-third of the CPI basket, while food, furnishings, and apparel amount to another 20%.

Since state and local governments are not classified as consumers, they face a different set of price pressure called the state and local government implicit price deflator. Mr. Roose said that services, largely consisting of wages, represent the bulk of the price deflator.

Mr. Roose mentioned that the CPI has generally been lower than the price deflator over the past 50 years. He noted that an analysis of the gap between these two measures has not been conducted but could be undertaken if inflation turns out to be permanent. He presented a slide showing the likely impacts of inflation on Delaware's General Fund and Transportation Trust Fund (TTF) revenues.

Personal income tax, the State's largest revenue source, is affected by inflation and so are other categories such as TTF's document fees, the corporate income tax and realty transfer tax. Mr. Roose noted that the last two categories were already climbing last year. Meanwhile, the corporate franchise tax, the State's second largest revenue source, is unaffected by inflation and neither are the bulk of TTF revenues and categories such as hospital and tobacco.

Turning to General Fund estimates, Mr. Roose said that many revenue sources continue to track very closely to the forecast. He indicated that estimates for realty transfer taxes, which were running behind for understandable reasons, have caught up with the curve in October. According to Mr. Roose, remaining uncertainties center around the estimated personal income tax and the corporate income tax, given very little additional information gathered between October and December.

Mr. Roose also informed DEFAC members that the November figures of the revenue detail file have been adjusted for the implementation in FY 2021 of a new tax processing system for the Department of Finance.

Discussion of FY 2022 Estimates:

Personal Income Tax (PIT) Less Refunds: Mr. Roose recommended an increase in the estimate by \$18 million.

Mr. Roose mentioned that withholding was very strong at the moment, with double digit growth of more than 10% on a fiscal year-to-date basis. He partly attributed the growth to bonuses for State employees and extraordinary transactions that will not be repeated next year.

Mr. Roose said that the revenue category will run into difficult comparisons as the year progresses but noted a very strong wage and salary income forecast for the fiscal year. Such wage growth will support withholding over the remainder of the year. Mr. Roose also indicated that anecdotal evidence points to strong bonuses, particularly in the financial services industry.

When it comes to net PIT, Mr. Roose said that estimated payments are doing very well. The third-quarter payments, due in September, were very strong while fourth-quarter payments are due in January 2022. Collections have remained strong in the off-months, leading Mr. Roose to recommend an increase in the estimate by \$9 million.

Ms. Davis Burnham asked whether it is unusual to see strong estimated payments in off-months. Mr. Roose answered that estimated payments have posted significant growth in almost every month and that the underlying trend

remains good. He noted however that the estimate is based on only one quarter of payments, as fourth-quarter payments have yet to come.

Meanwhile, refunds have also been very strong fiscal year to date, prompting Mr. Roose to recommend a change in the estimate by \$27 million. Mr. Roose explained that \$12 million of the recommended increase can be attributed to the large increase in the Federal child and dependent care tax credit included in the American Rescue Plan Act, which flows through directly to Delaware's tax calculations. Meanwhile, \$15 million of the proposed increase is due to higher refunds to date that are most likely related to tax year 2020.

Corporate Income Tax (CIT) Less Refunds: Mr. Roose recommended an increase in the estimate by \$63.9 million.

Mr. Roose said the fourth-quarter tentative payments, due on December 15, have been strong, with 7-figure payments received from taxpayers that showed little or no previous liability. He added that collections are currently well beyond what could be expected based on economic performance.

Mr. Roose pointed out that CIT tax calculations are not as directly tied to the economy as they are with other revenue sources. He showed a chart displaying a range of possible outcome regarding the gross CIT estimate based on history: in the worst-case scenario the estimate would be \$250 million; it would be \$430 million in the best case scenario, with the most likely spot being around \$350 million to \$360 million.

Although one-time factors may be affecting the estimate, Mr. Roose said the very strong economy is most likely the major reason driving performance of the revenue category. For him, a strong economy provides more confidence in the current year's estimate but could also allow for next year's CIT to not decline to the degree that is currently built into the forecast.

Mr. Roose listed issues that make the forecast more uncertain, including the Tax Cuts and Jobs Act, single-sales apportionment factor, and the Build Back Better Act.

Dividends and Interest: Mr. Roose recommended an increase in the estimate by \$1.5 million.

Ms. Davis said the State's portfolio has been repositioned to reflect a higher allocation of funds in the liquidity accounts. This was done to protect the portfolio from expected future increases in market rates due to inflationary pressures and Federal Reserve policy actions. The result, which has minimal impact on FY 2022, was a transfer of \$600 million in cash to the liquidity managers from longer term investments.

Lottery: Mr. Roose recommended an increase in the estimate by \$6.7 million.

Mr. Roose said the increase was due to strong slots performance.

Net Franchise + LP/LLC: Mr. Roose recommended an increase in the estimate by \$18 million.

Mr. Roose attributed the higher estimate to formation activity.

Gross Receipts Tax (GRT): Mr. Roose recommended an increase in the estimate by \$12.7 million.

Mr. Roose attributed the increase in the estimate to higher inflation.

Other Refunds: Mr. Roose recommended a reduction in the estimate by \$1 million.

Mr. Roose said the reduction was due to lower ongoing license refunds.

Realty Transfer Tax (RTT): Mr. Roose did not recommend a change in the estimate.

Mr. Roose said the RTT estimate has been brought up 33% since June and now seems to have caught up with the curve.

Cigarette Tax: Mr. Roose did not recommend a change in the estimate.

Mr. Roose said the estimate is tracking well several months after Maryland had increased its tobacco tax rate. He expected flat growth this year instead of the 2% to 3% decline usually seen for that revenue category.

Other changes were attributed to tracking.

FY 2022 Estimate Adopted:

A motion was made, seconded and approved to accept \$5,530.2 million as the revenue estimate for FY 2022. The estimate represents an increase of \$123.1 million from the October estimate.

Mr. Roose said the adjusted growth rate is very strong, at 10.3%. Mr. Geisenberger noted continued volatility for the State revenue portfolio, with strong growth in PIT and net Franchise tax and large decreases in several other categories.

Mr. Houghton asked Mr. Roose about the experience of other states. Mr. Roose answered that Delaware is not alone in writing up its revenue projections, as many states set their revenue forecasts significantly lower than they should in the early months of the pandemic. He noted that PIT and CIT have been strong for most states, although the reasons for the robust CIT growth are unclear.

General Fund Revenues - Fiscal Year 2023:

The Revenue Subcommittee recommended the following updates to October's estimates:

Revenue Category	Oct-21	Dec-21	Change
Corporation Income Tax	200.0	246.0	46.0
Personal Income Tax	2,149.2	2,182.9	33.7
Unclaimed Property	500.0	525.0	25.0
Limited Partnerships & LLC's	398.6	416.6	18.0
Gross Receipts Tax	315.5	328.6	13.1
Dividends and Interest	26.6	19.5	(7.1)
Lottery	225.7	230.5	4.8
Other Revenues	61.5	63.8	2.3
Alcoholic Beverage Tax	30.4	31.9	1.5
Hospital Board and Treatment	22.6	21.4	(1.2)
Public Utility Tax	28.7	27.7	(1.0)
Other Refunds	(19.3)	(18.3)	1.0
Bank Franchise Tax	91.1	91.6	0.5

For a complete listing of FY 2023 estimates, see Table 2.

Discussion of FY 2023 Estimates:

Unclaimed Property Less Refunds: Mr. Roose recommended an increase in the estimate by \$25 million.

During the Subcommittee meeting, Mr. Roose had mentioned that the inventory of funds to be received by the Office of Unclaimed Property has pushed the estimate to the cap in FY 2022 and that more funds were expected to be received in FY 2023.

Lottery: Mr. Roose recommended an increase in the estimate by \$4.8 million.

Mr. Roose said the increase in FY 2023 was lower than the one in FY 2022 due to concerns over competition from casino openings in Virginia and sports betting in Maryland.

Dividends and Interest: Mr. Roose recommended a decrease in the estimate by \$7.1 million.

Ms. Davis attributed the lower estimate to a greater portion of the portfolio being invested in short term securities.

Other changes reflected the carrying forward of changes made in FY 2022.

FY 2023 Estimate Adopted:

A motion was made, seconded and approved to accept \$5,491.6 million as the revenue estimate for FY 2023. The estimate represents an increase of \$136.6 million from the October estimate. The adjusted growth rate is -0.8%.

Balance and Appropriations Worksheet: Mr. Roose presented the Balance and Appropriations worksheet. The result of this exercise is attached as Table 3.

Budget Benchmark Index: Ms. Marlin said the index, established under Executive Order (EO) Number 21, is calculated from Delaware's personal income growth, Delaware's population growth and the price deflator for state and local government purchases. She mentioned that the index is 4% for December 2021 and that FY 2022 personal income and price deflator figures are most likely to change in May 2022 when the index is recalculated.

Discussed by Mr. Geisenberger during the Revenue Subcommittee meeting, another Executive Order (EO Number 52), approved on December 15, 2021, has added to the calculation of the benchmark appropriation. The calculation now includes an amount not to exceed 1% of the previous budget to be a supplemental appropriation funding the Other Post-Employment Benefits (OPEB) Trust Fund.

With the new OPEB Trust Fund (\$47.7 million) set aside, the FY 2023 benchmark appropriation is calculated to be \$5,123.5 million and the resulting extraordinary revenues at \$823.8 million. For budget and planning purposes only, Ms. Marlin noted that the Budget Stabilization Fund (BSF) stands at \$742.5 million.

A motion was made, seconded, and approved to accept the benchmark index of 4%.

A final motion was made, seconded, and approved to accept the level of FY 2023 extraordinary revenues of \$823.8 million.

Mr. Marcozzi asked about the role DEFAC members regarding the benchmark calculations, given they are derived from mathematical formulas. Mr. Geisenberger answered that the EO provides the formula for the derivation of the index, but that DEFAC has the responsibility to revisit the formula after 5 years. He suggested that DEFAC should put a Subcommittee together in May 2022 that will look into the formula and provide some recommendations to the Governor by July 2023.

Mr. Houghton said the calculations are a mechanical process and DEFAC will need to revisit the criteria, especially given significant changes in the State fiscal circumstance over the last two years.

Transportation Trust Fund (TTF):

TTF -- Expenditures: Ms. Haw-Young presented the Transportation Trust Fund's expenditure forecast.

State Operations Expenditure: Increased from \$313.3 million in October to \$323.3 million.

Ms. Haw-Young attributed the change to an increase in Operations/Capital Outlay spending category by \$10.0 million, an amount representing the budgeted storm and snow removal expenditure.

State Capital Expenditure: There was no change from the October estimate of \$320.0 million.

Federal Capital Expenditure: There was no change from the October estimate of \$250.0 million.

U.S. 301 Capital Expenditure: There was no change from the October estimate of \$34.8 million.

A motion was made, seconded, and approved to accept \$928.1 million as the FY 2022 TTF expenditure estimate. The estimate represents an increase of \$10.0 million from the October estimate (See Table 4.)

TTF -- Revenues: Ms. Haw-Young presented the Transportation Trust Fund's revenue forecast.

FY 2022 Estimates:

The following changes were made from the October estimates.

Toll Road Revenues: There was no change from the October estimate of \$191.7 million.

Ms. Haw-Young said all revenues are tracking as expected.

Motor Fuel Tax Administration: There was no change from the October estimate of \$139.7 million.

Division of Motor Vehicles: There was no change from the October estimate of \$232.3 million.

Other Transportation Revenues: There was no change from the October estimate of \$12.0 million.

U.S. 301 Revenues: There was no change from the October estimate of \$23.4 million.

A motion was made, seconded, and approved to accept \$599.1 million as the FY 2022 TTF revenue estimate. The estimate is unchanged from the October estimate.

FY 2023 Estimates:

The following changes were made from the October estimates.

Toll Road Revenues: There was no change from the October estimate of \$202.6 million.

Motor Fuel Tax Administration: There was no change from the October estimate of \$146.9 million.

Division of Motor Vehicles: There was no change from the October estimate of \$236.4 million.

Other Transportation Revenues: There was no change from the October estimate of \$13.2 million.

U.S. 301 Revenues: There was no change from the October estimate of \$23.7 million.

A motion was made, seconded, and approved to accept \$622.8 million as the FY 2023 TTF revenue estimate. The estimate is unchanged from the October estimate (See Table 5.)

Other Business:

FY 2023 Debt Limit: Ms. Marlin presented the debt limit for FY 2023. This amount is equal to 5.0% of projected FY 2023 net revenues or \$274.58 million.

American Rescue Plan Act (ARPA): Ms. Claire DeMatteis, Special Assistant to the Governor, said it was important for DEFAC to understand the process, strict compliance measures and internal audit controls associated with Federal funds. She noted three Federal and State resources devoted to infrastructure investments: the American Rescue Plan, the Federal Infrastructure bill and the State's Bond bill.

Regarding ARPA, Ms. DeMatteis said the State received \$925 million as part of the Fiscal Recovery Fund. In addition, it received \$112 million for its portion of the ARPA Capital Relief Fund. Ms. DeMatteis noted that final rules for ARPA have not yet been issued by the U.S. Treasury Department but said any project must meet pandemic response needs, provide immediate economic stabilization for affected households and businesses, rebuild a stronger, more equitable economy in communities hit hard by COVID-19, and address systemic public health, public safety, and economic challenges.

Ms. DeMatteis mentioned the restrictions on the use of ARPA funds, including for tax cuts, replenishing pension funds, for debt services and legal settlement, and general infrastructure such as roads and bridges. She also said that the Capital Relief Fund of \$112 million can only be used for capital projects designed to directly enable work, education, and health monitoring; address a critical need resulted from or exacerbated by the COVID-19 public health emergency; and address a critical need of the community to be served by it.

Turning her attention to the Federal Infrastructure bill, Ms. DeMatteis said the \$2.4 billion received by the State is expected to be spent on such projects as Federal highways (\$1.2 billion), water and wastewater (\$355 million), cyber security (\$11 million), and airport infrastructure (\$246 million).

Ms. DeMatteis indicated that projects which have been approved to date have focused on building the State's economy with high-paying jobs and a sustainable quality of life. She stressed that every project must go through the State's Department of Justice for a written opinion regarding its compliance with ARPA.

Ms. DeMatteis says ARPA recipients must update her office every quarter on how funds are being utilized. She also mentioned the comprehensive health approach that the State is about to undertake and invited nonprofit organizations, faith-based organizations, and for-profit providers that provide community-based mental health services in Delaware to apply for funds.

Ms. DeMatteis said ARPA projects can be found on <https://de.gov/rescueplan>. She added that the website is updated periodically and transparent about every project and indicated that half of the ARPA funds has been allocated. Mr. Geisenberger also mentioned <https://de.gov/relief>, which is focused on the funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Mr. Houghton thanked Ms. DeMatteis for her presentation and said he would invite her again in 2022.

Fiscal Notebook and Tax Preference Report: Ms. Marlin mentioned that the latest updates to the Tax Preference Report and Fiscal Notebook have been completed and the reports can be found on the Department of Finance's webpage:
<https://finance.delaware.gov/financial-reports/tax-preference-report/>
<https://finance.delaware.gov/financial-reports/delaware-fiscal-notebook/>

Ms. Marlin asked DEFAC members to review the Tax Preference Report, as the estimates found in it will be subject to their votes at the March meeting.

Mr. Houghton announced the next scheduled DEFAC meeting dates:

- March 21, 2022
- May 16, 2022

Mr. McConnel asked about sources of funds for nonprofit organizations that are not eligible for ARPA funds. Mr. Geisenberger answered that Ms. DeMatteis mentioned 3 sources of funding in her presentation: ARPA, cash to the Bond bill and the Federal Infrastructure bill. He pointed out that cash to the Bond bill, the State's own revenue, is an avenue for projects that do not fit into ARPA or the Federal Infrastructure bill.

Mr. Roose quickly showed a slide displaying how the benchmark index works to stabilize the budget and enable sustainable revenue growth. He noted he will go in more detail in the next two meetings. In response to a question from Mr. Ratledge about the OPEB Fund, Mr. Geisenberger said rating agencies are more interested in a continuous approach for addressing the large OPEB liability (\$10 billion) than one-time contributions.

Mr. Ratledge noted that reducing the liability is a responsible thing to do. Mr. Geisenberger added the Retirement Benefit Study Committee did recommend periodic one-time contributions in addition to substantial annual reductions.

Responding to Mr. Sokola's remark about adding a floor to language used in Executive Order Number 52, Mr. Geisenberger said the floor is always 0%. He explained that funding the OPEB Fund is not mandatory, as the benchmark is advisory. Mr. Geisenberger added that the OPEB Fund or cash portion to the Bond bill might not be funded in years of

shortfalls.

Ms. Davis added that a \$10 billion liability will not be quickly recovered with a 1% contribution, but it is a starting point. She noted the rating agencies would like to see continuity in addressing the liability. Mr. Geisenberger said the \$47.7 million set aside in the OPEB Fund is 6 times larger than the current contribution of \$8 million.

There being no further business, Mr. Houghton adjourned the meeting at 3:15 p.m.

Respectfully submitted,

Arsene Aka

Table 1a.

DEFAC Expenditures Forecast for General Fund Disbursements FY2022 (\$ in millions)																		
December 20, 2021																		
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022					
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Appropriation					
Budget Act	3,091.5	3,305.3	3,508.6	3,586.8	3,718.2	3,809.5	3,908.5	4,084.1	4,106.9	4,270.8	4,451.9	4,547.0	4,771.5					
Cash to Bond Bill	0.0	91.0	115.3	53.4	60.9	23.8	0.0	12.6	0.0	189.0	184.3	35.4	692.3					
Grant-in-Aid	35.4	35.2	41.2	44.2	44.8	45.4	43.0	45.9	37.3	52.1	55.1	54.5	63.2					
Continuing & Encumbered (from prior years)	183.7	184.9	303.7	301.1	276.4	194.8	201.3	181.5	178.6	184.1	329.6	431.3	495.8					
Supplementals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	49.2	62.0	0.0	221.1					
Fiscal Year Spending Authority	3,310.6	3,616.4	3,968.8	3,985.5	4,100.2	4,073.5	4,152.8	4,324.3	4,322.8	4,745.2	5,082.8	5,068.2	6,243.9					
LESS:																		
Reversions to the General Fund	49.3	42.1	75.3	50.5	111.3	39.6	57.5	39.6	20.6	21.4	137.6	53.4	Oct	Dec	Mar	Apr	May	June
Encumbered to next fiscal year	37.7	35.2	39.3	35.6	40.2	39.5	40.8	37.5	35.8	41.5	54.0	53.2	15.0	25.0				
Continuing to next fiscal year													40.0	40.0				
Operating Budget																		
Bond Bill																		
Total Continuing	147.2	268.4	261.8	240.9	154.6	161.8	140.7	141.1	148.3	288.1	377.3	442.6	1089.50	1,086.3				
Subtotal	234.1	345.7	376.4	327.0	306.1	240.9	239.0	218.2	204.7	351.0	568.9	549.2	1,144.5	1,151.3	0.0	0.0	0.0	0.0
Fiscal Year Budgetary Expenditures	3,076.5	3,270.7	3,592.4	3,658.5	3,794.1	3,832.6	3,913.7	4,106.1	4,118.1	4,394.3	4,513.9	4,519.0						
% increase/(decrease)		6.31%	9.84%	1.84%	3.71%	1.01%	2.12%	4.92%	0.29%	6.71%	9.51%	2.84%						
Comments:																		
Expenditures / Spending Authority	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	5-Yr Avg					FY2022
	92.9%	90.4%	90.5%	91.8%	92.5%	94.1%	94.2%	95.0%	95.3%	92.6%	88.8%	89.2%	92.2%					81.6%
Reversions / Spending Authority	1.5%	1.2%	1.9%	1.3%	2.7%	1.0%	1.4%	0.9%	0.5%	0.5%	2.7%	1.1%	1.1%					0.4%
Encumbered / Spending Authority	1.1%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	0.9%	0.8%	0.9%	1.1%	1.0%	0.9%					0.6%
Total Continuing / Spending Authority	4.4%	7.4%	6.6%	6.0%	3.8%	4.0%	3.4%	3.3%	3.4%	6.1%	7.4%	8.7%	5.8%					17.4%

Recommended by Expenditures Subcommittee;
December 20, 2021

Table 1b

[illegible]

Table 1c.

DEFAC Expenditures Forecast for General Fund Disbursements FY2023-2026 (\$ in millions)									
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022		
	Actual	Actual	Actual	Actual	Actual	Actual	December		
Salaries	1,361.8	1,402.9	1,421.1	1,499.9	1,558.6	1593.0	1662.8		
Fringe Benefits	453.7	480.5	479.6	494.4	506.1	513.3	516.1		
Health Care	334.1	359.0	357.9	362.6	369.0	372.5	369.9		
Other	119.6	121.5	121.7	131.8	137.1	140.8	146.2		
Pension	297.3	317.7	316.7	360.8	360.1	372.6	413.3		
Contribution	150.6	153.7	167.6	201.5	205.0	209.1	235.3		
Health Care	105.0	131.3	136.0	145.4	145.9	139.2	154.4		
Other	41.7	32.7	13.1	13.9	9.2	10.1	23.6		
Debt Service	169.4	179.0	187.2	183.9	184.1	187.3	205.7		
Grants	349.6	365.7	362.9	445.2	507.1	433.2	698.8		
Medicaid	689.1	739.7	750.2	733.4	702.0	734.1	830.7		
Contractual Services	513.6	537.6	526.1	589.0	600.5	607.5	679.7		
Supplies & Materials	66.9	68.7	61.9	69.3	64.7	60.9	64.0		
Capital Outlay	12.3	14.3	12.4	18.5	30.6	17.2	21.5		
FY Budgetary Expenditures	3,913.7	4,106.1	4,118.1	4,394.3	4,513.9	4,519.1	5092.6		
Comments:									
Forecast FY2024-FY2026 is based on the annual average growth rate for each category FY2017-FY2022(December Estimate).									
OMB General Assumptions FY2023 Forecast									
The FY2023 projected spend takes the following into consideration:									
1. FY2023 Operating spend at FY2022 levels (budget requests unknown at this time)									
2. FY2023 Grant in Aid budget at FY2022 level									
3. Does not include a FY2023 One Time Supplemental amount									

Recommended by Expenditures Subcommittee;
December 20, 2021

Table 1c.

4. Does not include FY2023 Bond Bill Cash projects
5. Continuing Funds from Cash Projects and One Time funds
Salary - Includes increase for Steps/CBAs and Unit Count growth
Fringe Other/Fringe Healthcare/Pension - Rates at the FY2022 level; impact from Steps/CBAs/Unit Count growth
Debt Service – Increased \$15M for both existing and new debt
Grants - Includes Grant in Aid at FY2022 level, , funding provided to UD and Housing at FY2022 level, and \$49M spend of the continued cash projects
Medicaid - Projected the state share at 35.4% in conjunction with the increased level of Eligible participants and 2.2% MCO rate increase
Contractual Services - Includes \$210M spend for continued cash projects, \$75M recommended base budget increases including Community Placements, CHIP, Purchase of Care, and Education areas (mental health, transportation, Redding Consortium, opportunity funding, among others)
Supplies - projected at FY2022 level, with \$5M spend from continued cash projects
Capital - projected at FY2022 operational level and \$15M continued cash projects

Table 2. DEFAC General Fund Revenue Worksheet

December-21 DEFAC Meeting	FY 2021		FY 2022			
	A Actual Collections	B DEFAC Oct-21	C % B over A	D DEFAC Dec-21	E % D over A	F \$ Increase D over B
Revenue Category						
Personal Income Tax	2,123.8	2,088.4	-1.7%	2,133.4	0.5%	45.0
Less: Refunds	(235.4)	(230.5)	-2.1%	(257.5)	9.4%	(27.0)
PIT Less Refunds	1,888.4	1,857.9	-1.6%	1,875.9	-0.7%	18.0
Franchise Tax	1,082.5	1,113.0	2.8%	1,113.0	2.8%	0.0
Limited Partnerships & LLC's	385.3	398.6	3.5%	416.6	8.1%	18.0
Subtotal Franchise + LP/LLC	1,467.8	1,511.6	3.0%	1,529.6	4.2%	18.0
Less: Refunds	(11.7)	(10.0)	-14.8%	(10.0)	-14.8%	0.0
Net Franchise + LP/LLC	1,456.0	1,501.6	3.1%	1,519.6	4.4%	18.0
Business Entity Fees	148.3	148.5	0.2%	148.5	0.2%	0.0
Uniform Commercial Code	26.7	26.2	-1.9%	26.2	-1.9%	0.0
Unclaimed Property	554.0	554.0	0.0%	554.0	0.0%	0.0
Less: Refunds	(105.4)	(160.0)	51.9%	(160.0)	51.9%	0.0
Unclaimed Prop Less Refunds	448.6	394.0	-12.2%	394.0	-12.2%	0.0
Gross Receipts Tax	279.9	304.8	8.9%	317.5	13.4%	12.7
Lottery	215.7	225.8	4.7%	232.5	7.8%	6.7
Corporation Income Tax	255.3	278.7	9.2%	342.6	34.2%	63.9
Less: Refunds	(45.6)	(70.0)	53.4%	(70.0)	53.4%	0.0
CIT Less Refunds	209.7	208.7	-0.5%	272.6	30.0%	63.9
Ready Transfer Tax	236.5	285.7	20.8%	285.7	20.8%	0.0
Cigarette Taxes	115.7	115.7	0.0%	115.7	0.0%	0.0
Bank Franchise Tax	74.9	88.8	18.6%	89.5	19.5%	0.7
Insurance Taxes and Fees	97.1	81.1	-16.4%	80.0	-17.6%	(1.1)
Hospital Board and Treatment	23.1	22.4	-3.2%	21.3	-7.9%	(1.1)
Public Utility Tax	35.0	29.7	-15.2%	28.7	-18.1%	(1.0)
Alcoholic Beverage Tax	32.7	30.0	-8.3%	31.5	-3.7%	1.5
Dividends and Interest	64.0	49.3	-23.0%	50.8	-20.6%	1.5
Other Revenues	62.9	60.8	-3.4%	63.1	0.3%	2.3
Less: Other Refunds	(25.0)	(23.9)	-4.5%	(22.9)	-8.5%	1.0
Net Receipts	5,390.3	5,407.1	0.3%	5,530.2	2.6%	123.1

Adj Growth Rate

10.3%

Table 2. DEFAC General Fund Revenue Worksheet

December-21 DEFAC Meeting	FY 2023					FY 2024				
	G DEFAC Oct-21	H % G over B	I DEFAC Dec-21	J % I over D	K \$ Increase I over G	L DEFAC Oct-21	M % L over G	N DEFAC Dec-21	O % N over I	P \$ Increase N over L
Revenue Category										
Personal Income Tax	2,149.2	2.9%	2,182.9	2.3%	33.7	2,254.4	4.9%	2,287.2	4.8%	32.8
Less: Refunds	(232.9)	1.0%	(232.9)	-9.6%	0.0	(233.1)	0.1%	(233.1)	0.1%	0.0
PIT Less Refunds	1,916.3	3.1%	1,950.0	4.0%	33.7	2,021.3	5.5%	2,054.1	5.3%	32.8
Franchise Tax	1,113.0	0.0%	1,113.0	0.0%	0.0	1,124.1	1.0%	1,124.1	1.0%	0.0
Limited Partnerships & LLC's	398.6	0.0%	416.6	0.0%	18.0	402.6	1.0%	420.8	1.0%	18.2
Subtotal Franchise + LP/LLC	1,511.6	0.0%	1,529.6	0.0%	18.0	1,526.7	1.0%	1,544.9	1.0%	18.2
Less: Refunds	(10.0)	0.0%	(10.0)	0.0%	0.0	(10.0)	0.0%	(10.0)	0.0%	0.0
Net Franchise + LP/LLC	1,501.6	0.0%	1,519.6	0.0%	18.0	1,516.7	1.0%	1,534.9	1.0%	18.2
Business Entity Fees	148.5	0.0%	148.5	0.0%	0.0	150.0	1.0%	150.0	1.0%	0.0
Uniform Commercial Code	26.2	0.0%	26.2	0.0%	0.0	26.5	1.1%	26.5	1.1%	0.0
Unclaimed Property	500.0	-9.7%	525.0	-5.2%	25.0	500.0	0.0%	500.0	-4.8%	0.0
Less: Refunds	(160.0)	0.0%	(160.0)	0.0%	0.0	(160.0)	0.0%	(160.0)	0.0%	0.0
Unclaimed Prop Less Refunds	340.0	-13.7%	365.0	-7.4%	25.0	340.0	0.0%	340.0	-6.8%	0.0
Gross Receipts Tax	315.5	3.5%	328.6	3.5%	13.1	328.1	4.0%	341.8	4.0%	13.7
Lottery	225.7	0.0%	230.5	-0.9%	4.8	226.3	0.3%	226.3	-1.8%	0.0
Corporation Income Tax	200.0	-28.2%	246.0	-28.2%	46.0	203.4	1.7%	250.2	1.7%	46.8
Less: Refunds	(70.0)	0.0%	(70.0)	0.0%	0.0	(70.0)	0.0%	(70.0)	0.0%	0.0
CIT Less Refunds	130.0	-37.7%	176.0	-35.4%	46.0	133.4	2.6%	180.2	2.4%	46.8
Realty Transfer Tax	300.0	5.0%	300.0	5.0%	0.0	270.0	-10.0%	270.0	-10.0%	0.0
Cigarette Taxes	111.5	-3.6%	111.5	-3.6%	0.0	108.9	-2.3%	108.9	-2.3%	0.0
Bank Franchise Tax	91.1	2.6%	91.6	2.3%	0.5	92.9	2.0%	93.4	2.0%	0.5
Insurance Taxes and Fees	98.1	21.0%	98.1	22.6%	0.0	87.2	-11.1%	87.2	-11.1%	0.0
Hospital Board and Treatment	22.6	0.9%	21.4	0.5%	(1.2)	23.8	5.3%	22.6	5.6%	(1.2)
Public Utility Tax	28.7	-3.4%	27.7	-3.5%	(1.0)	27.7	-3.5%	26.8	-3.2%	(0.9)
Alcoholic Beverage Tax	30.4	1.3%	31.9	1.3%	1.5	30.9	NA	32.4	1.6%	1.5
Dividends and Interest	26.6	-46.0%	19.5	-61.6%	(7.1)	31.6	18.8%	24.6	26.2%	(7.0)
Other Revenues	61.5	1.2%	63.8	1.1%	2.3	62.4	1.5%	64.8	1.6%	2.4
Less: Other Refunds	(19.3)	-19.2%	(18.3)	-20.1%	1.0	(19.4)	0.5%	(18.4)	0.5%	1.0
Net Receipts	5,355.0	-1.0%	5,491.6	-0.7%	136.6	5,458.3	1.9%	5,566.1	1.4%	107.8
Adj Growth Rate					-0.8%				1.3%	

Table 3. Balance and Appropriations Worksheet

December-21

FY 2022 EXPENDITURES

Total Spending Authority	\$6,243.9
Less: Continuing Appropriations & Encumbrances from FY 2022	(\$1,126.3)
Less: Reversions	(\$25.0)
Total Expenditures	\$5,092.6

FY 2022 BALANCES

Total Expenditures	\$5,092.6
vs. FY 2022 Revenues	5,530.2
Operating Balance	437.6
Prior Year Cash Balance	1833.4
Less: Budget Stabilization Fund (83 Del Law c 54; HB 250, Section 72)	(\$287.3)
Cumulative Cash Balance	1,983.7
Less: Continuing Appropriations & Encumbrances from FY 2022	(1,126.3)
Less: Budgetary Reserve Account	(\$280.3)
Unencumbered Cash Balance 6/30	\$577.1

FY 2023 APPROPRIATION LIMITS

FY 2023 Revenue Estimate	\$5,491.6
Unencumbered Cash Balance from FY 2022	\$577.1
100% Appropriation Limit	\$6,068.7
98% Appropriation Limit	\$5,947.3
Prior 98% Appropriation Limit	\$5,683.0
Increase (Decrease) from Prior Meeting	\$264.3
October 2021 98% Appropriation Limit	\$5,683.0
Increase (Decrease) from October 2021	\$264.3

FY 2022 BUDGET

Budget	\$4,771.5
Grants	\$63.2
Supplemental	\$913.4
Total Appropriations	\$5,748.1
Plus: Continuing Appropriations & Encumbrances from Prior Years	\$495.8
Total Spending Authority	\$6,243.9

Table 4.

Delaware Department of Transportation FY 2022 Expenditures, Through November 30, 2021										42%
	FY2020 Actual	FY2021 Actual	FY2022 Appropriation	OCTOBER FY2022 Forecast	DECEMBER FY2022 Forecast	\$ difference October to December	\$ difference Forecast V. FY2021 Actual	FY2022 YTD Spend	% spent YTD	
Operations			w/o US301							
Debt Service	91.5	93.5	67.0	67.0	67.0	0.0	(26.5)	52.3	78%	
Personnel Costs	102.3	102.6	106.0	106.0	106.0	0.0	3.4	44.3	42%	
Operations/Capital Outlay	59.7	60.5	70.5	60.5	70.5	10.0	10.0	28.5	47%	
Transit Operations (DTC)	94.8	46.6	79.8	79.8	79.8	0.0	33.2	33.2	42%	
Total Expenditures - Operations	348.3	303.2	323.3	313.3	323.3	10.0	20.1	158.3	51%	
State Capital										
Road System	254.8	258.3	200.3	200.3	200.3	0.0	(58.0)	81.3	41%	
Grants & Allocations	37.4	30.2	43.2	43.2	43.2	0.0	13.0	14.9	34%	
Support Systems	53.9	54.7	41.3	41.3	41.3	0.0	(13.4)	15.0	36%	
Transit	28.7	27.0	35.2	35.2	35.2	0.0	8.2	13.7	39%	
State Capital	374.8	370.2	320.0	320.0	320.0	0.0	(50.2)	124.9	39%	
Federal Capital										
Federal Capital	278.5	293.5	250.0	250.0	250.0	0.0	(43.5)	119.4	48%	
Total Expenditures - Capital	653.3	663.7	570.0	570.0	570.0	0.0	(93.7)	244.3	43%	
TOTAL EXPENDITURES	1,001.6	966.9	893.3	883.3	893.3	10.0	(83.6)	402.6	46%	

	OCTOBER FY2022 Forecast	DECEMBER FY2022 Forecast	\$ difference Oct to Dec	FY2022 YTD Spend	% spent YTD
DelDOT	883.3	893.3	\$ 10.0	\$ 402.6	46%
US301	34.8	34.8	\$ -	\$ 5.1	15%
TOTAL	918.1	928.1	\$ 10.0	\$ 407.7	40%

Table 5.

DELAWARE DEPARTMENT OF TRANSPORTATION Transportation Trust Fund Revenues									
	FY20	FY21	% Chg.	Fiscal 2022			Fiscal 2023		
				10/18/2021 Approved	12/20/2021 Recomm	% Chg. FY 21	10/18/2021 Approved	12/20/2021 Recomm	% Chg. FY 22
<u>TOLL ROAD REVENUES:</u>									
I95 Newark Plaza	\$114.3	\$114.4	0.1%	\$130.3	\$130.3	14.1%	\$136.6	\$136.6	4.8%
Route 1 Toll Road	54.2	55.0	1.5%	\$59.6	\$59.6	8.3%	\$63.9	\$63.9	7.2%
Concessions	1.9	1.3	-31.6%	\$1.8	\$1.8	0.0%	\$2.1	\$2.1	0.0%
Total Toll Road Revenues	170.4	170.7	0.2%	\$191.7	\$191.7	12.3%	\$202.6	\$202.6	5.7%
<u>MOTOR FUEL TAX ADMIN.</u>	138.7	128.5	-7.4%	\$139.7	\$139.7	8.8%	\$146.9	\$146.9	5.2%
<u>DIVISION OF MOTOR VEHICLES</u>									
Motor Vehicle Document Fees	113.6	138.9	22.3%	\$126.2	\$126.2	-9.0%	\$128.5	\$128.5	1.8%
Motor Vehicle Registration Fees	53.8	60.8	13.0%	\$62.1	\$62.1	2.1%	\$63.2	\$63.2	1.8%
Other DMV Revenues	39.4	37.0	-6.1%	\$44.0	\$44.0	19.0%	\$44.7	\$44.7	1.6%
Total DMV Revenues	206.8	236.7	14.5%	\$232.3	\$232.3	-1.9%	\$236.4	\$236.4	1.8%
<u>OTHER TRANSPORTATION REV.</u>									
Other Transportation Rev	11.2	11.4	1.8%	\$9.0	\$9.0	-20.8%	\$9.2	\$9.2	2.2%
Investment Income(Net)	5.9	2.4	-59.3%	\$3.0	\$3.0	27.1%	\$4.0	\$4.0	33.3%
Total Other Transp. Revenue	17.1	13.8	-19.3%	\$12.0	\$12.0	-13.0%	\$13.2	\$13.2	10.0%
GRAND TOTAL	\$533.0	\$549.7	3.1%	\$575.7	\$575.7	4.7%	\$599.1	\$599.1	4.1%
				\$0.0			\$0.0		
	FY20	FY21	% Chg.	Fiscal 2022			Fiscal 2023		
				\$	\$		\$	\$	
US301 Revenues	\$ 25.8	\$ 19.9	-22.9%	\$ 23.4	\$ 23.4	0.00%	\$ 23.7	\$ 23.7	0.00%
TOTAL	\$ 558.8	\$ 569.6	1.9%	\$ 599.1	\$ 599.1	5.2%	\$ 622.8	\$ 622.8	4.0%